

Stock Market Update

Equity

Ukrainian stocks listed on the PFTS Exchange finished lower last week, although the losses were generally less than those seen on the main global exchanges amid the COVID-19 panic, as most local stocks have already been trading at distressed levels.

Electricity generator CentrEnergO (CEEN) was hardest-hit, slumping 11% to UAH 7.50, and DonbasEnergO (DOEN) also dropped by 10% to UAH 24.00 per share. Plummeting global oil prices continued to hurt UkrNafta (UNAF), which lost 6.5% to close at UAH 130. Raiffaisen Bank Aval (BAVL) which had been in a low-volatility mode for the last three months, tumbled 11% to 33.00 kopecks as the bank could postpone an expected dividend distribution.

Machinery blue-chip TurboAtom (TATM) declined by 2.8% to UAH 10.30. The company reported that its net profit dropped by 2.4x YoY to UAH 314mn (0.74 kopecks per share) in full-year 2019. In 4Q19 alone, TurboAtom had a net loss of UAH 63mn. The company is scheduled to hold a shareholders meeting on Apr 23, where an FY19 dividend should be announced. We expect TurboAtom to adopt a 50% payout from last year's profit, implying a DPS of UAH 0.37 per share.

London-listed Ferrexpo (FXPO) gained 15% to GBP 127 despite the rout on the FTSE, after the company posted a solid net profit of USD 403mn for full-year 2019. On the downside, poultry giant MHP (MHPC) fell another 5.0% to USD 5.70 amid concerns regarding the company's quite high debt burden.

In Warsaw trading, Kernel (KER) shed 3.9% to PLN 34.20 while both Astarta (AST) and Agroton (AGT) started to recover after sharp drops over the preceding week. Astarta edged up by 2.4% to PLN 10.60 and Agroton rebounded by 8.0% to PLN 2.70 per share.

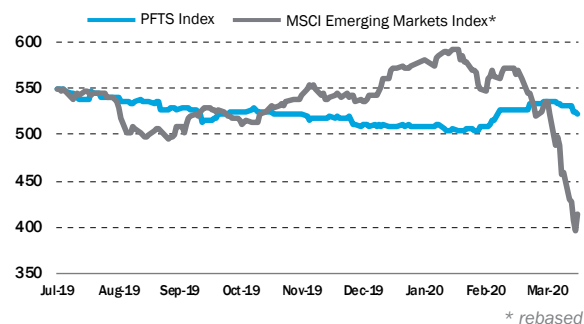
The hryvnia was under heavy attack last week from speculators as the US dollar demonstrated broad gains against world currencies amid the turmoil on financial markets. The domestic currency briefly fell below the UAH/USD 29 level at midweek before massive interventions from the National Bank provided cover; the NBU acknowledged that its reserves have declined from USD 26.6bn at the beginning of March down to around USD 24bn as of Friday (Mar 20). The hryvnia ended the week 3.8% lower at 27.50 UAH/USD, a level last seen at the beginning of 2019.

Highlights

STOCKS IN THE NEWS

- > Ferrexpo's Full-Year Profit Jumps 20% to USD 403mn for 2019

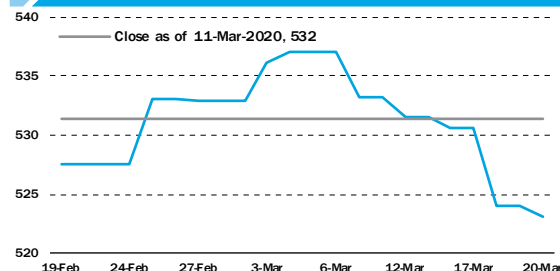
STOCK MARKET PERFORMANCE



MARKET INDEXES

| | Last | 1W ch | YTD |
|---------|------|--------|--------|
| PFTS | 523 | -1.6% | 2.6% |
| RTS | 924 | -2.2% | -40.3% |
| WIG20 | 1488 | 9.0% | -30.7% |
| MSCI EM | 803 | -9.9% | -28.0% |
| S&P 500 | 2304 | -15.0% | -28.7% |

PFTS 1M PERFORMANCE



FIXED INCOME

| | Last | 1W ch | YTD |
|--------------|-------|----------|-----------|
| NBU Key Rate | 10.0% | 0.0 p.p. | -3.5 p.p. |
| Ukraine-2024 | 15.7% | 5.9 p.p. | 9.1 p.p. |
| Ukraine-2028 | 15.3% | 6.1 p.p. | 8.3 p.p. |

CURRENCY

| | Last, UAH | 1W ch | YTD |
|-----|-----------|-------|-------|
| USD | 27.50 | 3.8% | 16.1% |
| EUR | 29.50 | -0.5% | 11.7% |

Ferrexpo's Full-Year Profit Jumps 20% to USD 403mn for 2019

by Dmitry Churin
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FERREXPO (FXPO LN)

Price: GBp 127 Market Cap: USD 871mn

| | P/B | EV/S | P/E | EV/EBITDA | Div. Yield |
|-------|-----|------|-----|-----------|------------|
| 2019 | 0.7 | 0.8 | 2.2 | 2.0 | 6.7% |
| 2020E | 0.6 | 0.9 | 3.0 | 2.7 | 6.7% |

NEWS

Poltava-based Ferrexpo, Ukraine's largest iron ore exporter, reported a 20% YoY increase in its full-year 2019 net profit to USD 403mn (USD 0.684 per share), according to financials published on Mar 18. The company's revenue rose by 18% YoY to USD 1.51bn on the back of higher iron ore price during the period. Total sales volume of iron ore pellets inched up by 0.8% YoY to 10.3mn tonnes. The company's EBITDA increased by 17% YoY to USD 586mn. Ferrexpo also reported that its average production cash pellet cost from in-house ore (C1 cost) grew by 10% YoY to USD 47.80 per tonne. Meanwhile, the benchmark 65 percent iron ore fines price (full-year average) increased by 16% YoY to USD 104 per tonne.

Ferrexpo's net debt as of end-2019 decreased by 17% YoY to USD 281mn. As a result, the Net Debt/EBITDA ratio fell from 0.67x as of end-2018 to 0.48x as of end-2019. Net operating cash flow rose 62% YoY to USD 473mn in FY19, and full-year CapEx grew by 83% to USD 247mn.

FERREXPO FINANCIAL RESULTS

| USD mn | 2019 | 2018 | YoY |
|-------------------|--------------|--------------|-------------|
| Revenue | 1,507 | 1,274 | +18% |
| EBITDA | 586 | 503 | +17% |
| <i>margin</i> | 39% | 39% | 0 p.p. |
| Net profit | 403 | 335 | +20% |
| <i>margin</i> | 27% | 26% | +1 p.p. |

| | 31 Dec 2019 | 31 Dec 2018 | YoY |
|--------------------|-------------|-------------|------|
| Net debt to EBITDA | 0.48x | 0.67x | -28% |

Source: Company Data

COMMENTARY

Although we view Ferrexpo's achieved financial results as solid, they were nonetheless somewhat lower than our expectations. We had forecasted that the company's EBITDA would be at USD 630mn and net profit at USD 420mn for 2019. On the other hand, we are cheered by Ferrexpo's ability to decrease its debt burden amid the uncertain outlook for the iron ore market. The company's current Net Debt to EBITDA level at 0.5x poses no threat for its financial position. What does raise some concerns regarding Ferrexpo's mining is that its production costs have been increasing quite substantially in recent years. The company's C1 cost was 32% lower in 2017. On the positive side, Ferrexpo has signed new long-term contracts for supplies to Germany and Taiwan as well as renewing a long-term contract for supplies to Japan. The company has a geographically diversified sales portfolio which allows it to maintain consistent sales despite some periods of weaker demand. This diversity of sales will be tested in the coming months as some countries will likely see a sharp contraction in their economic outlook.

We currently expect that Ferrexpo's EBITDA will decline by 26% YoY in FY20 to USD 430mn and net profit will fall by 28% to USD 290mn. The London-listed FXPO stock reacted positively to the earnings report, rising by 15% to GBp 127 per share despite big losses on the FTSE due to the COVID-19 panic. Eavex Capital has a BUY recommendation for the FXPO stock with a target price of GBp 250 per share. The company's trailing P/E is currently just 2.2x.

EAVEX RECOMMENDATIONS

| Name | Ticker | Price, per share | Target price, per share | Upside, % | Rating | Commentary |
|------------------------------|---------|------------------|-------------------------|-----------|--------|--|
| Agriculture | | | | | | |
| Kernel | KER PW | 34.2 | 82.0 | 140% | BUY | With on-demand borrowing access, Kernel is well placed to further consolidate its position in the oilseed crushing industry. The company's sunflower oil sales grew by solid 40% YoY to 389,600 tonnes despite oilseeds processing increased by moderate 7.0% YoY in January-March 2019. Kernel's sunflower oil sales volume rose by 17.8% YoY to roughly 1.17mn tonnes for the 9 months ending Mar 31 (the company has a July-to-June reporting calendar). The company's grain trading volumes increased by 2.6x YoY to 7.97mn tonnes in the 9 months ending Mar 31 and export terminal throughput rose by 5.8% YoY to 4.71mn. The company aims to achieve EBITDA of USD 500mn by 2021. |
| MHP | MHPC LI | 5.7 | 16.5 | 189% | BUY | London-listed agro group MHP increased its net profit by 38% YoY to USD 138mn in 2Q19, which implies earnings per share of USD 1.31 in the period. For the first half (1H19), the company posted net revenue of USD 946mn (+36% YoY), EBITDA of USD 247mn (-6% YoY), and net profit of USD 171mn (-10% YoY). The company's export sales rose 43% YoY to USD 552mn in 1H19, accounting for 58% of total revenue. MHP's reported USD 1.31 net profit per share for 2Q19 beat our forecast of USD 1.10 for the period, and we are raising our full-year projection for MHP's net profit from USD 170mn to USD 220mn, which would imply earnings per share of USD 2.08. |
| Astarta | AST PW | 10.6 | 32.0 | 202% | BUY | The company secured USD 20mn financing from Deutsche Investitions und Entwicklungsgesellschaft (DEG) despite the company's high Net Debt-to-EBITDA ratio of 7.7x. Astarta had unexpectedly weak financial results for 3Q19. Astarta's net loss for the quarter amounted to EUR 26mn after a net profit of EUR 30mn posted for 1H19. However, we believe the company's financial results will improve in 4Q19. |
| Agroton | AGT PW | 2.70 | 12.0 | 344% | BUY | Agroton unveiled a strategy to increase its land bank from 119,000 ha to 200,000 ha by mid-2020 securing additional lease rights and by acquiring companies that control land plots in Luhansk and Kharkiv region. Agroton reported that its net profit was USD 3.3mn (PLN 0.51 per share) in 1H19. In our view, Agroton currently has a fairly healthy financial position, with an estimated Net Debt/EBITDA ratio of 1.0x. The company continues to invest in growth, spending USD 2.2mn on CapEx in 1H19. |
| Iron Ore | | | | | | |
| Ferrexpo | FXPO LN | 127 | 250 | 96% | BUY | Iron ore market has seen a major shift over the past two years as China's anti-pollution drive spurs demand for cleaner ore, exploding the spreads between top-quality material and lower-grade cargoes, which benefits Ferrexpo as top-quality pellets producer. |
| Specialized Machinery | | | | | | |
| Motor Sich | MSICH | 5390 | -- | -- | BUY | Motor Sich is closing in on a solid contract with Chinese company Avicopter (AVIC) to supply helicopter engines for a Russian-Chinese project. The shares of Motor Sich remained frozen due to an ongoing investigation conducted the Ukrainian Security Service (SBU) regarding change in the controlling shareholder of the company. |
| Oil & Gas | | | | | | |
| UkrNafta | UNAF | 130 | 270 | 108% | BUY | UkrNafta's fundamental value should see an immediate jump after the company reaches a deal with the government on restructuring its huge UAH 12bn tax debt. We believe that with the state owning a 50% stake in UkrNafta, the resolution of the tax debt issue is only a matter of time. |
| Concern Galnaftogaz | GLNG | n/a | -- | -- | U/R | Galnaftogaz is pursuing a plan to aggressively expand its filling station network. |
| Regal Petroleum | RPT LN | 14.0 | -- | -- | U/R | Natgas extractor Regal Petroleum (RPT) got hammered, plunging 30% after news that the Ukrainian State Geological Service issued an order to suspend production on one of Regal's licenses. The company said that it is seeking to obtain further information on the basis for the order, and is taking measures to protect its rights. |
| JKX Oil & Gas | JKX LN | 15.0 | -- | -- | U/R | The company's balance sheet looks healthy after it successfully restructured its Eurobonds. An overall demand for natural gas in Ukraine remains strong. |
| Power Utilities | | | | | | |
| DonbasEnergO | DOEN | 24.0 | -- | -- | U/R | The company confirmed its strategic plan to modernize one of its power units at the Slavyansk plant by 2022. |
| CenterEnergO | CEEN | 7.50 | 25.60 | 241% | BUY | The CEEN stock has been in a downward trend since October 2018, falling from a level of UAH 18 to the current level of UAH 10 per share after yet another failed attempt to privatize the company. Persisting uncertainty about whether CentrEnergO can really be privatized at a fair price has made the company a hostage of Ukrainian behind-the-scenes politics. This year Kyiv court closed the 15-year old case related to the company's possible bankruptcy. The court decision was long-awaited and should help to make CentrEnergO more attractive for privatization. |
| Banks | | | | | | |
| Raiffeisen Bank Aval | BAVL | 0.330 | 0.47 | 42% | BUY | Raiffeisen Bank Aval, the Ukrainian subsidiary of Vienna-based Raiffeisen International, approved UAH 3.56bn in dividends from its full-year 2018 profit (5.79 kopecks per share). Raiffeisen Aval posted a net profit of UAH 5.09bn for FY18 (USD 187mn at the average UAH/USD rate for the period), which was 14% YoY higher compared FY17. We forecast that the bank will earn UAH 4.6bn in net profit in FY19, which would imply earnings per share of 7.5 kopecks. Raiffeisen Aval has been the most dividend-rich stock in the Ukrainian equity universe since 2016. The stock's dividend yield in 2017 was 20% and in 2018 it was around 22%. |

Source: Eavex Research

QUOTES AND MULTIPLES

| Name | Ticker | Today, UAH* | Absolute performance | | MCap USD mn | EV USD mn | Free float | P/E | | EV/EBITDA | | EV/Sales 2020E |
|------------------------------|--------|----------------|----------------------|--------|----------------|--------------|------------|------|-------|-----------|-------|-------------------|
| | | | 1W | YtD | | | | 2019 | 2020E | 2019 | 2020E | |
| PFTS Index | UX | 523 | -1.6% | 2.8% | | | | | | | | |
| Iron Ore Mining | | | | | | | | | | | | |
| Ferrexpo | FXPO | 127 | 15.7% | -19.9% | 873 | 1,154 | 24.0% | 2.2 | 3.0 | 2.0 | 2.7 | 0.9 |
| Railcar Manufacturing | | | | | | | | | | | | |
| Kryukiv Wagon | KVBZ | 15.6 | 0.0% | 0.0% | 65 | 38 | 5.0% | 2.5 | 7.1 | 1.0 | 2.7 | 0.2 |
| Specialized Machinery | | | | | | | | | | | | |
| Turboatom | TATM | 10.3 | -2.8% | -2.6% | 158 | 155 | 3.8% | 13.0 | 4.7 | 3.1 | 2.8 | 1.3 |
| Motor Sich | MSICH | 5,390 | 0.0% | 0.0% | 407 | 436 | 24.0% | neg | 41 | 23 | 9.1 | 1.5 |
| Oil & Gas | | | | | | | | | | | | |
| UkrNafta | UNAF | 130 | -6.5% | -10.1% | 256 | 249 | 3.0% | 8.8 | 3.4 | 2.5 | 0.9 | 0.2 |
| Regal Petroleum | RPT | 14.0 | -11.4% | -35.9% | 52 | 12 | 21.6% | 5.2 | 6.5 | 0.6 | 0.6 | 0.2 |
| JKX Oil | JKX | 15.0 | -15.5% | -36.7% | 30 | 138 | 50.4% | 1.6 | 1.9 | 4.1 | 3.6 | 1.2 |
| Power Utilities | | | | | | | | | | | | |
| Centrenergy | CEEN | 7.50 | -10.7% | -19.0% | 101 | 80 | 21.7% | neg | 17 | neg | 3.2 | 0.1 |
| Donbasenergy | DOEN | 24.00 | -10.4% | -5.1% | 21 | 19 | 14.2% | neg | 8.6 | 2.5 | 2.1 | 0.1 |
| Consumer | | | | | | | | | | | | |
| MHP | MHPC | 5.70 | -5.0% | -37.4% | 602 | 1,742 | 34.1% | 1.9 | 1.8 | 4.1 | 3.5 | 0.8 |
| Kernel | KER | 34.20 | -3.9% | -28.8% | 643 | 1,337 | 61.8% | 3.4 | 2.8 | 3.9 | 3.3 | 0.3 |
| Astarta | AST | 10.60 | 2.4% | -33.8% | 63 | 320 | 37.0% | 2.8 | 2.4 | 3.4 | 3.1 | 0.5 |
| Avangardco | AVGR | 0.20 | 0.0% | 0.0% | 13 | 344 | 22.5% | 6.4 | 4.3 | 20 | 18 | 2.9 |
| Agroton | AGT | 2.70 | 8.0% | -27.0% | 14 | 23 | 25.0% | 1.5 | 2.0 | 1.8 | 2.1 | 0.4 |
| Banks | | | | | | | | | | | | |
| Raiffeisen Bank Aval | BAVL | 0.330 | -10.8% | 7.2% | 738 | | 1.8% | 4.0 | 4.4 | 1.3 | 1.4 | 0.20 |

Source: PFTS. LSE. WSE. Eavex Research
* companies listed abroad are in traded currency

MAIN FINANCIAL FORECASTS, USD mn

| Name | Ticker | Net Sales | | | EBITDA | | | EBITDA margin | | | Net Profit | | | Net Profit margin | | |
|------------------------------|--------|--------------|-------|-------|--------------|-------|-------|---------------|-------|-------|------------|-------|-------|-------------------|-------|-------|
| | | 2018 | 2019E | 2020E | 2018 | 2019E | 2020E | 2018 | 2019E | 2020E | 2018 | 2019E | 2020E | 2018 | 2019E | 2020E |
| Iron Ore Mining | | | | | | | | | | | | | | | | |
| Ferrexpo | FXPO | 1,274 | 1,507 | 1,330 | 503 | 586 | 430 | 39.5% | 38.9% | 32.3% | 335 | 403 | 290 | 26.3% | 26.7% | 21.8% |
| Railcar Manufacturing | | | | | | | | | | | | | | | | |
| Kryukiv Wagon | KVBZ | 200 | 292 | 240 | 20 | 38 | 14 | 10.2% | 13.0% | 5.9% | 18 | 26 | 9 | 9.0% | 9.1% | 3.8% |
| Specialized Machinery | | | | | | | | | | | | | | | | |
| Turboatom | TATM | 94 | 110 | 122 | 40 | 49 | 56 | 43.1% | 45.0% | 45.6% | 28 | 12 | 34 | 29.9% | 11.1% | 27.9% |
| Motor Sich | MSICH | 450 | 358 | 294 | 96 | 19 | 48 | 21.2% | 5.2% | 16.3% | 46 | -14 | 10 | 10.2% | -3.8% | 3.4% |
| Oil & Gas | | | | | | | | | | | | | | | | |
| Ukrnafta | UNAF | 1,328 | 1,148 | 1,240 | 350 | 99 | 280 | 26.4% | 8.6% | 22.6% | 237 | 29 | 76 | 17.8% | 2.5% | 6.1% |
| Regal Petroleum | RPT | 60 | 50 | 55 | 54 | 22 | 19 | 90.0% | 44.0% | 34.5% | 42 | 10 | 8 | na | 20.0% | 14.5% |
| JKX Oil | JKX | 93 | 111 | 120 | 31 | 34 | 38 | 33.2% | 30.5% | 31.7% | 15 | 18 | 16 | 16.5% | 16.5% | 13.3% |
| Electric Utilities | | | | | | | | | | | | | | | | |
| Centrenergy | CEEN | 533 | 587 | 660 | 38 | -38 | 25 | 7.1% | -6.4% | 3.8% | 18 | -44 | 6 | 3.4% | -7.4% | 0.9% |
| Donbasenergo | DOEN | 224 | 249 | 276 | 23 | 8 | 9 | 10.2% | 3.1% | 3.3% | 4 | -3 | 2 | 1.7% | -1.2% | 0.9% |
| Consumer | | | | | | | | | | | | | | | | |
| MHP | MHPC | 1,556 | 2,090 | 2,257 | 450 | 420 | 502 | 28.9% | 20.1% | 22.2% | 128 | 310 | 335 | 8.2% | 14.8% | 14.8% |
| Kernel (FY18, FY19, FY20E) | KER | 2,403 | 3,992 | 4,750 | 223 | 346 | 405 | 9.3% | 8.7% | 8.5% | 52 | 189 | 230 | 2.2% | 4.7% | 4.8% |
| Astarta | AST | 424 | 537 | 623 | 65 | 93 | 104 | 15.3% | 17.4% | 16.6% | -24 | 22 | 26 | -5.7% | 4.1% | 4.2% |
| Avangardco | AVGR | 127 | 135 | 120 | 15 | 17 | 19 | 11.8% | 12.6% | 15.8% | -5 | 2 | 3 | -3.9% | 1.5% | 2.5% |
| Agroton | AGT | 57 | 63 | 55 | 14 | 13 | 11 | 24.7% | 20.6% | 20.0% | 14 | 9 | 7 | 23.7% | 15.1% | 12.7% |
| Banks | | | | | | | | | | | | | | | | |
| | | Total Assets | | | Total Equity | | | Total Income | | | Net Profit | | | Return on Equity | | |
| Raiffeisen Bank Aval | BAVL | 2,647 | 3,893 | 3,623 | 420 | 550 | 524 | 239 | 280 | 292 | 187 | 185 | 168 | 44.6% | 33.6% | 32.0% |

Source: Eavex Research

UKRAINIAN DOMESTIC BONDS

| Issue | Price (Bid) | Price (Ask) | YTM (Bid) | YTM (Ask) | Modified Duration | Coupon | Coupon Period | Maturity Date | Volume UAH mn |
|------------------------------|-------------|-------------|-----------|-----------|-------------------|--------|---------------|---------------|---------------|
| UAH denominated Bonds | | | | | | | | | |
| UA4000202469 | | | 23.0% | 13.0% | n/a | n/a | S/A | 30 Sept 2020 | n/a |
| UA4000200174 | | | 23.0% | 13.0% | n/a | n/a | S/A | 20 Jan 2021 | n/a |
| UA4000195176 | | | 23.0% | 13.0% | n/a | n/a | S/A | 11 Aug 2021 | n/a |
| UA4000203236 | | | 23.0% | 13.0% | n/a | n/a | S/A | 05 Jan 2022 | n/a |
| UA4000204002 | | | 23.0% | 13.0% | n/a | n/a | S/A | 11 May 2022 | n/a |
| UAH denominated Bonds | | | | | | | | | |
| UA4000204853 | | | 4.50% | 3.25% | n/a | n/a | S/A | 29 Jul 2021 | USD 350mn |

Source: TR Data, Eavex Research

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